***Calgary's property tax problem – Dr. Paul Fairie***

Features of the Calgary economy in combination with the rules of the property tax system have led to some unintended and unfortunate consequences. This is particularly true for businesses, with larger than anticipated tax increases for some (especially suburban) commercial properties, and some very large property tax decreases for others (especially larger downtown properties).

What happened? First, the 2014 economic downturn. In addition to increasing unemployment rates and decreasing energy royalties, the downturn also hit the property market, cutting the value of many properties around the city. However, this by itself was not enough -- if (as in past downturns) property taxes had decreased more or less equally across the city, the problem described up front wouldn't have occurred.

What else happened? This downturn was different because of the extent to which the most dramatic property value drops were concentrated in the centre of the city, with downtown properties alone losing more than $10 billion in value. Calgary's specific status as a headquarters city is usually a property tax boon (allowing for relative tax decreases elsewhere in the city), but when these specific high-value properties drop precipitously in value, the property tax system's rules automatically make the rest of the city's businesses pick up the slack.

Why does this matter? Let's look at two fictional examples. Imagine two properties worth $90 and $10. The city needs $1 to pay for services, so it charges Property 1 90¢ and Property 2 10¢. A downturn hits, and the properties are now worth $45 and $5. The city still needs the same $1 to pay for services, and, after some simple arithmetic, charges the properties 90¢ and 10¢, just like before.

Imagine the same two properties worth $90 and $10, and a city that needs $1 to pay for services. Property 1 is charged 90¢ and property 2 10¢. An economic crisis now hits just Property 1, and they're now valued at $40 and $10. The city still needs $1, but now Property 1's bill is 80¢ and Property 2 has to pay 20¢ -- a 100% increase, even though overall taxes stayed the same! Swap in some real numbers and some real businesses, and this is more or less what happened in Calgary in the 2014 downturn.

Some property tax solutions that have been tried elsewhere might seem tempting, but they don't address Calgary's specific issue. Attempts in California to limit property tax increases ultimately disincentivized selling property and led to the creation of other taxes to fill in the funding gaps for local services like police and fire protection. Minnesota tried limiting property assessment changes, but taxes based on old assessments are unfair in various ways, and they abandoned this.

The tools developed by this working group can help council more explicitly consider the effects of their decisions on the taxes paid by homeowners and businesses across the city. Ultimately, regardless of how council proceeds, these short-term ideas will not stop the problem described above from happening again, and longer-term fixes (including full municipal tax reform) are the only real solution.